

LEGISLATIVE AUDIT DIVISION

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the general purpose financial statements of the state of Montana as of and for the fiscal year ended June 30, 2001, and have issued our report thereon dated January 4, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the state of Montana's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to the management of the state of Montana during the course of our audit work.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the state of Montana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the state of Montana's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions noted are described below:

1. We identified several issues at the Montana Department of Public Health and Human Services and Department of Environmental Quality related to fiscal control and accountability. These issues could have been prevented, or detected and corrected in a timely manner, if the agencies had an efficient and effective financial management control structure in place.
2. Montana Department of Public Health and Human Services personnel did not reconcile some of its automated data processing subsystems to the primary accounting system. The department's financial records may be misstated and thus misleading to users and federal reports could be misstated.
3. The Department of Administration is responsible for reconciling activity in all bank accounts for the State of Montana. The state converted to a new accounting system in fiscal year 2000. Since the conversion, the department has been unable to reconcile bank activity to the accounting records. The ability to promptly reconcile bank records to the accounting records is a key control which management needs to ensure the accounting records accurately reflect the cash balances.
4. The Department of Environmental Quality receives checks and currency as payment for environmental impact statement studies, licenses and permits, and fines. One employee is responsible for custody of the collections, updating accounts receivable on the database, preparing the required accounting system transactions and the treasury deposit ticket, and making the deposit. No one person should perform all these functions. An effective system of internal controls will provide reasonable assurance the collections and deposit procedures are properly performed.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the reportable condition related to fiscal control and accountability at Montana Department of Public Health and Human Services to be a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to the management of the state of Montana during the course of our audit work.

This report is intended for the information and use of the Legislative Audit Committee, state of Montana management, the Montana State Legislature, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

James Gillett, CPA
Deputy Legislative Auditor

January 4, 2002